

## Consolidation of Transfer Agency Platforms

The opportunity to  
reduce inefficiency  
while improving  
service to clients



# Introduction

The requirement for consolidation of Transfer Agency (TA) systems is increasing globally due to operational efficiency challenges and industry demand within fund administration organisations. The drive to reduce operating costs and remove duplication of technical and operational support of multiple core TA systems and the associated tools surrounding them has never been more to the fore. There is now an opportunity for administrators to enhance service capabilities whilst achieving significant savings of up to 30% in TA system costs. However, this is a difficult and complex challenge to deliver. In this article we discuss how administrators might go about undertaking this successfully.

## The journey so far...

To date, third party administrators (TPAs) and in-house led TA functions have not always had a consolidated approach to Transfer Agency capability globally. Traditionally TAs have had to deploy different system platforms for Alternative Investment (AI) versus Long only funds, and have also been forced to inherit multiple systems through the very active mergers and acquisitions landscape. This has resulted in significant IT spend and duplication of resources for both core TA systems and associated systems and applications that surround the core given the need to provide the required development, maintenance and support.

In addition, existing operational and client driven demands often take priority over strategic platform initiatives. Today, investment managers, their fund administrators and associated TAs operate across multiple time zones and commonly across both long and alternative fund types simultaneously. Globally, the significant increase in regulatory changes and demands for product sophistication are creating additional challenges for the market participants with overall level of straight-through processing (STP) in the industry as low as 47% in recent years (Deloitte, "Cross-border fund distribution in Europe" Survey). Also, AUA in Ireland continues to increase - up 19% since 2011 (IFIA). In terms of market opportunities, there is increasing growth opportunities in both APAC and LATAM and the administrators need to ensure they have the capability to service these markets. In addition, almost a third of administrators expect to see an increase in hedge fund volumes with 17% expecting similar increases from sophisticated UCITS.

Yet industry CEOs in Ireland have said that the key issues facing them are cost containment and market uncertainty as well as pressure on fees with fee models set to change in the near future. Thus, there are multiple dimensions that administrators need to consider within their overall global transfer agency capability.

At industry level, there is now an even greater need to push towards consolidation and convergence of TA systems. A realistic medium term goal for administrators servicing both long only and AI clients is to have two core systems linked to common surround systems. The ultimate panacea would be to have 'one system' covering both AI and long but this will only be achieved in the longer term. This potential reduction of duplicate systems and the rationalisation of the supporting processes are important topics for senior management as the early adopters will have the potential to become market leaders and achieve significant cost savings.

## Challenges

- Multiple platforms due to acquisitions or diversification.
- Need to maintain both long only versus alternative platforms – no all-in-one solution.
- Multiple systems supporting the core platforms.
- Constant regulatory environment change.
- Increasing product and investor complexity.
- Continued reliance on manual processes.

**Are administrator platforms fit for purpose?**

We have seen in the industry today that on average global administrators have five core TA systems across their long and AI business in different jurisdictions as well as a number of surround tools for but not limited to reconciliations, imaging and workflow, KYC/AML, print and media and reporting tools (see diagram below). These systems typically have legacy architectures such as two-tier or client/server, and basic database technology which are difficult and expensive to maintain and change.

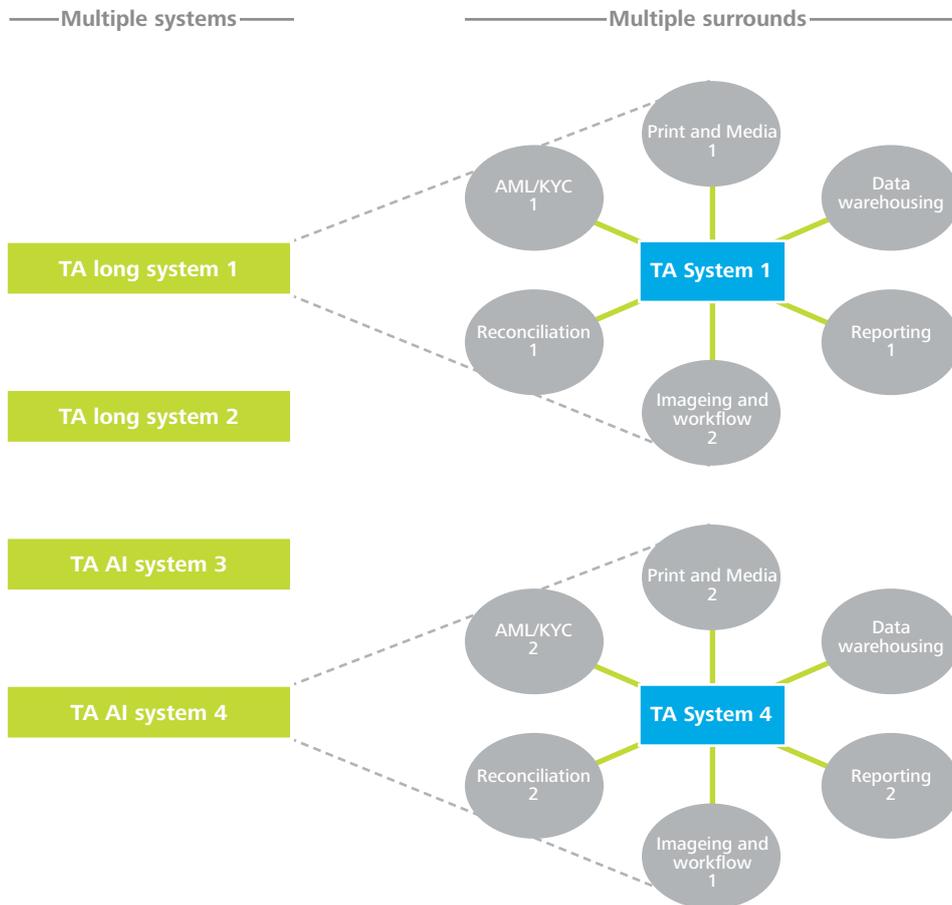
Older mainframe-centric systems inherently lack flexibility to support new product innovations in a way that matches the demand due to the development language, technology, and/or architecture.

The range of regulatory change that fund administration organisations face in the investment management industry today has reached unprecedented levels. These require constant

and sometimes significant development or operational change in order to remain compliant which puts significant pressure on transfer agents and their platforms.

In addition, great investor sophistication has forced providers to select technological solutions to satisfy requirements such as mobile technology. Yet the solutions still rely on the same legacy source systems to supply the fundamental underlying data. As a result either development is required or supporting technology is built to bridge these gaps.

Ultimately this has frustrated growth for TA's and has been the greatest barrier to their ability to be the efficient and agile unit their clients demand. These complex platforms of multiple systems are resulting in administrators having to invest resentfully into the development of individual systems as well as dedicated FTE within operations and IT to support the models and systems.



# Innovation in TA systems driving opportunities for administrators

## Technology

In technology terms, much has changed and the industry has matured and developed. The innovation in technology and active M&A environment has led to:

- Multiple TA product solutions on the market (see table adjacent for some examples);
- Software As A Service (SAAS) models provided by vendors;
- Mobility and availability of data on the move for clients becoming more critical;
- Self-service enablement as well as system architectures that allow access from anywhere;
- Databases designed to operate 24/7 global businesses;
- Ability to interface with client downstream systems and reporting in a seamless way;
- Single sign on and user 'design led' interfaces to streamline processing; and
- Advanced STP aimed at maximising the throughput and minimising exception/manual handling.

## Functionality

A traditional long only TA system will have a standard and well understood suite of functionality to deliver the service required to its users.

In today's environment, TA vendors are catering for local market specific requirements; for example, to deploy successfully in the UK marketplace systems require the specific functionality including box management, client money rules CASS requirements, handling of coveralls, agent structure and commissions/retrocession handling and UKTA Group 1/Group 2 distribution functionality. A consolidation strategy must take this complexity into consideration.

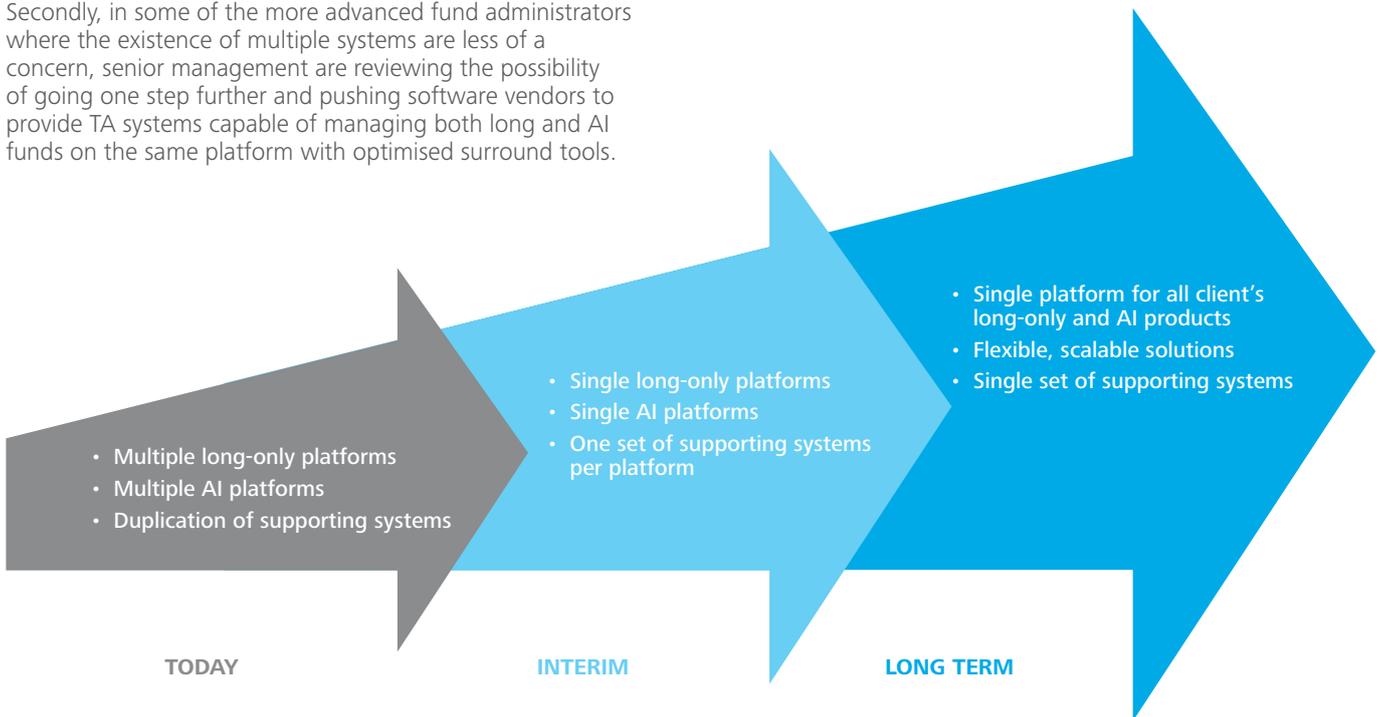
In addition, in a system convergence approach where a reduced number of TA systems are being considered for both long only and AI clients, there are a number of additional key functionalities needed that require a significant investment including by way of example; period end locks, performance equalisation, series of shares, side pockets, lot tracking and estimates.

Snapshot of common applications	
System vendor	Application
Atlas	Paxus
BSL	RUFUS, GFAS
DST	FAST, I-FAST, TA 2000
HWM	Mantra
In-house	In house developed system
Koger	NTAS
Multifonds	Multifonds
Oracle	I-Flex
RIVA TA	RIVA
Silica FISCUS	Silica
Sungard	Investar* One
Talon	Sharp
Vitech	Equitrak
Linedata	MShare

**The way forward**

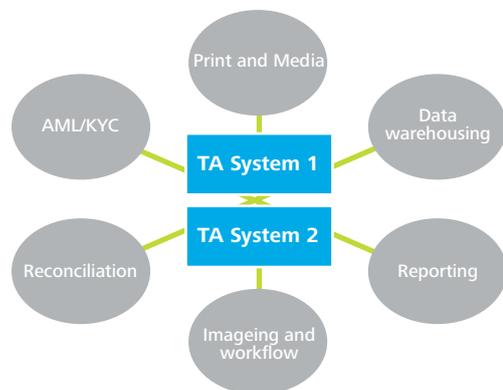
We are now seeing an industry trend where the strategic focus is towards consolidation of TA systems both within the long only fund space and the AI market space. In addition, there is also a move towards use of common surround tools (see diagram below).

Secondly, in some of the more advanced fund administrators where the existence of multiple systems are less of a concern, senior management are reviewing the possibility of going one step further and pushing software vendors to provide TA systems capable of managing both long and AI funds on the same platform with optimised surround tools.



The best pathway is unique to the business yet complex and puzzling. The solutions sought must be capable of servicing multiple jurisdictions, languages, products, structures and investor types such as retail, wholesale, institutional and platforms to serve the current market and build some degree of future proofing into TA technology strategy. The optimal solutions combine the core and the surround systems to present timely, specific and flexible data that is easily customised by transfer agent teams as well as the increasingly sophisticated investors through a number of channels. With many firms expecting to see an increase in IT budgets, there are significant opportunities for the administrators who can position themselves to implement a convergent strategy successfully with systems that incorporate the majority of those key features.

**Consolidated systems with common surrounds**



### What are the benefits?

A number of key benefits to this harmonisation of core systems and surround tools exist including the ability:

- To achieve superior cost savings – on average administrators can achieve up to 30% reduction in cost from year two.
- Anticipate changes with focused development spend and maximise return.
- To fully leverage their Centres of Excellence by maximising cross training and allocation of FTE expertise dependent on needs in different Global locations.
- Achieve an optimal target operating model
- Gratify client's needs for access to data that is flexible, reliable and consistent.

### Where to start?

The key challenge for senior management in fund administrators is how to break from the current diversified structure with its duplication of costs and support models to a more convergent strategy. All products need to be supported off a single strategic target operating model with a defined common suite of system functionality and flexible scalable architecture that increases operational efficiencies and reduces operational and IT costs.

The first decision to be made is what consolidation strategy to adopt. Will it be to aim to rationalise the number of core TA systems servicing both AI and Long Only clients, rationalise the common system surround tools, or a blend of both?

Key considerations when developing this approach include:

- How well do you know the features of the applications you currently use?
- Do feature gaps currently exist between current funds and your systems?
- Do you have a mandate to consolidate systems and surround tools?
- Do you have a target business case in mind?
- Have you considered your sourcing approach – Is this an opportune time to consider outsourcing?
- Do you have a strategic delivery partner/vendor?
- What is the appetite of the business for phased vs. big bang approaches?
- Do you have the capacity, appropriate governance and leadership support?
- Are your current vendors still capable of providing the required functionality?
- What will be the reaction from your clients and how will you manage the client impact if moving off 'legacy' systems?
- Are you structured correctly to drive value from your vendors and have you considered the impact of managing single or fewer software vendors in a less competitive environment?
- Do you have an optimal vendor commercial pricing model in mind - mix of fixed and flexible charging?



### How we can help

Deloitte has grown a globally integrated investment management practice and has developed extensive experience in core system transformations. We are determined to empower you to extract value from your systems, vendors, people and processes. We are enthusiastic to work with you whether it is exploring convergence strategies or making change happen.

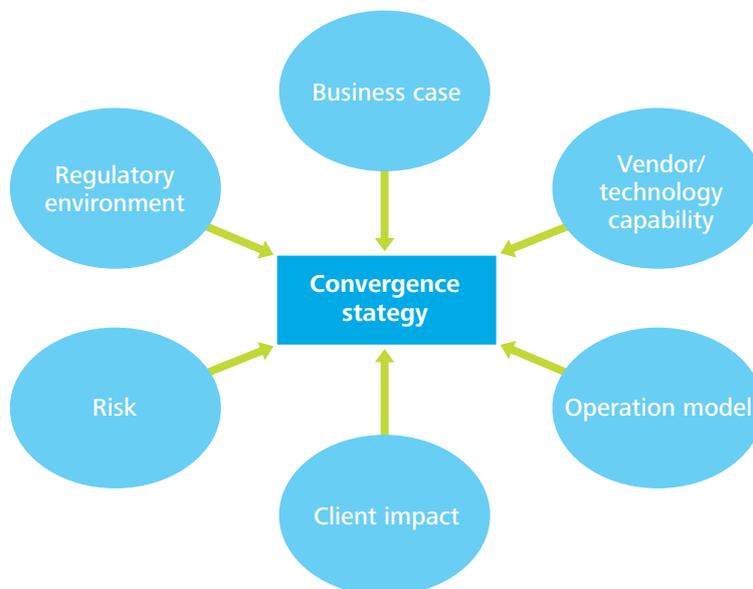
- Convergence advice and industry leading strategy expertise on available TA system strategies and operating models in both long only and AI markets across the globe, including target operating model design and implementation
- Detailed process assessment and system gap analysis with recommendations on optimum approach
- Vendor management services – including vendor analysis, vendor selection and contract negotiation
- Technical architecture reviews and assessment
- Programme delivery, PMO, testing and implementation
- Programme assurance

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